

David McCrone
Head of Quality of Service – Networks
Ofgem

By email: RIIOED2@ofgem.gov.uk

15th March 2024
Name: Gerard Boyd
Contact: 07725410025

Dear David,

DSO Incentive metrics consultation

This response is from SP Energy Networks (SPEN). We own the electricity distribution networks in the Central Belt and South of Scotland (SP Distribution plc) and North Wales, Merseyside, Cheshire and North Shropshire (SP Manweb plc). We also own the electricity transmission network in Central and South Scotland (SP Transmission plc). To meet our stakeholders' evolving needs, enable Net Zero and ensure the continued safe and reliable operation of our network, we are embracing our role as a DSO and the enabling activities associated with this.

We believe that the new RIIO-ED2 DSO incentive is an important mechanism which contributes to ensuring that the required pace of progress is made towards establishing fully functional DSOs which help to realise the decarbonisation ambitions of our local communities. We remain committed to the successful delivery of this incentive and will continue to work closely with Ofgem and the wider industry to ensure that it benefits stakeholders and supports our progress as a DSO. To this end, we welcome Ofgem's consultation in this area and our views on the specific proposals are set out below.

Ofgem's recommendation not to switch on the FDt, SFt, and CEt metrics during RIIO-ED2

We agree with Ofgem's recommendation that the FDt, SFt and CEt outturn performance metrics should not be switched on during RIIO-ED2.

Although we strongly support the principle of metrics being used as a method of mechanistic assessment for incentives, these metrics are not yet ready to be used in this manner. As Ofgem have outlined in the consultation, despite comprehensive working group discussions, the metrics continue to demonstrate issues in their calculation assumptions, and there are clear disparities in the methodologies making target setting problematic.

We previously wrote to Ofgem on 1st December 2023 to outline our areas of concern and make detailed recommendations to address (the letter is attached to this response). For CEt and FDt that letter sets out details that Ofgem should factor into decisions around target setting and calibration, and also terms within the methodologies that are at risk of

inconsistent interpretation amongst DNOs. However, SFT is the metric that concerns us the most and although these concerns are not insurmountable, we do believe that some changes to the methodology are required to avoid unintended consequences and a very volatile reward/penalty swing. For example, this metric is subject to factors that are outside our control (weather, network configuration, LCT uptake) and there is a risk that these could lead to a 'Load Lottery'. To align with DNO planning processes we believe there is a need for normalisation of the data within the methodology.

Ofgem's recommended alternative approach to continue with the metrics as a reporting requirement

Our aim should be that we continue to develop these metrics such that they are fit for purpose to be used as a financial incentive in RIIO-ED3. To achieve this and allow robust target setting in future price control periods, a comprehensive evidence base should be created, which can be achieved by reporting their metric performance for several years in advance of adopting the metrics.

However, we do not believe that DNOs should start reporting on these from the start of year 2 as a simple principle. Instead, before reporting commences, Ofgem and DNOs should work together to agree the approach to target setting, resolve outstanding methodology issues, and expand the guidance around the metrics to ensure that each DNO has a common interpretation of each metric's methodology. This should remove the persistent methodology issues that have been prevalent during the Working Group discussions and RFI submissions to date. Without some methodology changes (as outlined in our 1st December letter) and standardisation in the interpretation of what needs to be reported, the reported data will continue to produce the same anomalies that Ofgem has seen during the RFI process, and thus continue to make them an inappropriate basis for the RIIO-ED3 targets.

Ofgem's recommended alternative approach to reassign the 20% value of the incentive to the performance panel assessment

We agree with retaining the overall scale of the incentive at +0.4%/-0.2% RORE, as this will ensure the maximum upside and downside exposure in this area is broadly aligned with the other major RIIO-ED2 incentives. We therefore support the proposal that the 20% value currently attributed to the metrics in year 2 should be reassigned to another area.

However, we disagree with this being added to the performance panel assessment. The purpose and benefits of the DSO transition are aimed at delivering benefits for our stakeholders and the metrics were in place to demonstrate tangible benefit delivery to our stakeholders. Therefore, we believe that it is appropriate for the assessment of the incentive to place more weight on the views of a wide range of stakeholders with direct experience of our DSO services. We therefore believe that the 20% increment should be either fully, or in part, reassigned to the stakeholder satisfaction survey.

In addition, we do not support any suggestion that the panel should consider the reported metric performance in their assessment, hence data related to these metrics should not be included in the submissions to the panel. Ofgem has stated that '(it) lacks sufficient evidential

basis to set performance targets at this time'.¹ Without clear targets, the panel will have no benchmark to use when assessing performance and this makes it difficult to objectively determine good and bad performance. For example, for FDT Ofgem has shown that RFI2 results ranged from 0.01% to >100%², there is real risk that due to anchoring bias, if this performance data was presented to the panel, they could instinctively judge 100% as 'good' and 0.01% as 'bad'. We therefore believe that the metrics should be subject to further development before being considered in any manner.

Please do not hesitate to contact me further if you would like to discuss any aspect of this response. We are committed to continuing to work with Ofgem to ensure this incentive drives the correct behaviours and delivers benefits for our stakeholders.

Yours sincerely,



Gerard Boyd
Head of Flexibility

¹ Para 4.2, [RIIO-ED2 Distribution System Operation Incentive metrics consultation \(ofgem.gov.uk\)](#)

² Para. 3.11, [RIIO-ED2 Distribution System Operation Incentive metrics consultation \(ofgem.gov.uk\)](#)